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MEMORANDUM NO:
2003-CH-1803

September 30, 2003

MEMORANDUM FOR: David R. Ziaya, Director of Field Operations, PO

FROM:  Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: J.T. Eaton & Company, Incorporated
Civil False Claims
Twinsburg, Ohio

INTRODUCTION

We completed a review of J.T. Eaton & Company, Incorporated. The objectives of the review were to identify HUD subsidized housing authorities that purchased pest control products from J.T. Eaton and the amounts paid for those products. We performed the review at the request of the United States Attorney's Office for the Northern District of Ohio. We did not conduct the review in accordance with Generally Accepted Government Auditing Standards.

J.T. Eaton & Company, Incorporated, is an Ohio corporation based in Twinsburg, Ohio. J.T. Eaton manufactured and sold animal repellants and pesticide products that were required to be registered with the United States Environmental Protection Agency.

Based on the results of our review and follow-up work by the United States Attorney's Office, we found that housing authorities subsidized by HUD paid \$79,298 for products eligible for recovery under the Civil False Claims Act. The United States Attorney's Office negotiated a settlement agreement with J.T. Eaton effective September 18, 2003. Under the terms of the agreement, HUD will receive \$79,298. HUD's administrative remedies are not affected by the agreement.

METHODOLOGY AND SCOPE

We obtained listings of all 659 housing authorities in Minnesota, Wisconsin, Michigan, Ohio, Indiana, and Illinois. We sent letters to the housing authorities to determine whether they

purchased animal repellants and pesticide products from J.T. Eaton. Based upon a damage estimate provided by the United States Attorney's Office, we also sent letters to three housing authorities believed to have purchased over \$2,000 of repellants and products from J.T. Eaton. The three authorities were the New York City Housing Authority, the Newark Housing Authority, and the Wilmington Delaware Housing Authority.

BACKGROUND

The United States Attorney's Office filed a civil complaint against J.T. Eaton and its various officers on January 14, 2000. Civil case number 4-00-CV-70027 was filed in the United States District Court for the Southern District of Iowa Central Division. The Southern District of Iowa declined to intervene, and on June 7, 2001, the venue was transferred to the Northern District of Ohio.

The civil complaint alleged that since 1992, officers of J.T. Eaton & Company substantially changed its product manufacturing process and knowingly presented false and fraudulent registration forms and a sample analysis to the Environmental Protection Agency. The complaint asked for fines and treble damages of amounts paid by the Government for the falsely registered products.

RESULTS OF REVIEW

Of the 659 housing authorities we contacted, we received one positive response from the Lucas Metropolitan Housing Authority in Toledo, Ohio. In addition, we received positive responses from the New York City Housing Authority and the Wilmington Delaware Housing Authority after expanding our review. The responses demonstrated that between November 1, 1996 and January 12, 2001, the housing authorities paid more for animal repellants and pesticide products manufactured by J.T. Eaton than previously identified to the United States Attorney's Office. The United States Attorney's Office followed-up with the manufacturer and the suppliers we identified. Based on the follow-up, the United States Attorney's Office revised the estimate of HUD related damages from \$33,736 to \$79,298. The United States Attorney's Office negotiated a settlement agreement effective September 18, 2003 that includes a recovery for damages to HUD.

RECOMMENDATION

We recommend that HUD's Director of Field Operations for Public and Indian Housing:

- 1A. Follow-up with the United States Attorney's Office for the Northern District of Ohio to ensure that HUD receives \$79,298 from the settlement agreement with J.T. Eaton.

Schedule Of Ineligible Costs 1/

Recommendation
Number

1A	<u>\$79,298</u>
Total	<u>\$79,298</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State, or local policies or regulations.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Thomas Towers, Assistant Regional Inspector General for Audit, at (313) 226-6280 extension 8062 or me at (312) 353-7832.